



FHA's Office of Single Family Housing

Office of Lender Activities & Program Compliance

# Loan Review System (LRS): Implementation and Process Changes

January 26, 2017

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# Agenda

- Loan Review System (LRS) Overview
- Business Process Changes
  - Test Cases
  - Lender Monitoring Reviews
  - Lender Self-Reporting
- Defect Taxonomy
- Upcoming Activities



FHA's Office of Single Family Housing

# Loan Review System (LRS) Overview





# Loan Review System

**The Federal Housing Administration (FHA) manages the risks to Single Family insurance programs through various quality control processes.**

**FHA is committed to balancing risk management while meeting the needs of its target population.**

**A unified loan review process improves FHA quality control, making it more consistent & transparent.**

## Loan Review System (cont.)

- Enables a unified loan review process in a single system
- Implements Defect Taxonomy





# Loan Review System (cont.)

**Test Cases &  
Post-Endorsement  
Loan Reviews**

- eFindings Letter & Notifications
- Underwriter Review System

**Lender Monitoring  
Reviews of Underwriting,  
Servicing & Operations**

- Email Notifications/Requests
- Manual Processes

**Self-Reporting of  
Fraud/Misrepresentation  
& Other Material Findings**

- Neighborhood Watch

**Responding to Findings**

- Mail/eMail to HOC

**Reports & Summary Data**

- Multiple Source Systems

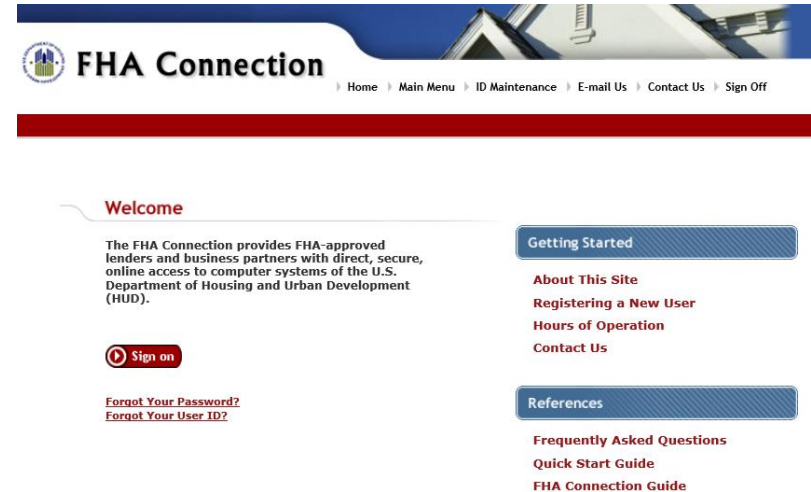
**All functions  
in ONE  
Loan Review  
System (LRS)**





# Access & User Roles

- LRS accessed via FHA Connection
- Lender's Application Coordinator grants user access
- Three possible roles:
  1. Read Only
  2. Response Submission
  3. Indemnification Submission





# Lender Dashboard

★ LRS

Active Reviews

Binder Request

Create Self-Report

Completed Reviews

Signed in as **Lender Jones**

FHA MORTGAGE COMPANY (86420)

Requests

Batches

RESPONSE DEADLINES

Show All

Past Due

1

Due Today

6

Due in the Next Week

11

FILTERS

Show All

My Requests

8

Batched Loans

12

Mitigation 1

32

Mitigation 2

14

HOC Escalation

4

HQ Escalation

2

Lender Monitoring

12

Lender Self-Report

18

Conditional

14

Random

4

FHA Manual

8

OIG Audit

12

CASE NUMBER SEARCH

Search

▼ RESPONSE REQUESTS (20)

Case Number	Property Address	Selection Reason	Review Level	Request Date	Response Due	Last Action By
▲ <a href="#">351-3576307</a>	97 Gonzales St.	Lender Monitoring	Mitigation 2	07/21/2016	08/01/2016	Robinson, Lawrence
○ <a href="#">351-4988773</a>	8325 SW. Applegate Dr.	OIG Audit	Mitigation 1	07/24/2016	08/04/2016	
● <a href="#">351-1768306</a>	712 Glenholme Dr.	Lender Self Report	HOC Escalation	07/24/2016	08/04/2016	Harkey, Evita
● <a href="#">351-5198201</a>	72 Lakeview Dr.	Random Monthly	Mitigation 2	07/24/2016	08/04/2016	Jones, Lender
○ <a href="#">351-1264427</a>	7278 Saxton Dr.	Conditional	Mitigation 2	07/24/2016	08/04/2016	Hodgins, Leonie
● <a href="#">351-9442769</a>	9854 NW. Arlington Rd.	Lender Self Report	Mitigation 1	07/24/2016	08/04/2016	
● <a href="#">351-0726552</a>	7682 Southampton Ln.	Lender Monitoring	Mitigation 2	07/24/2016	08/04/2016	Domenico, Marline
● <a href="#">351-0151464</a>	691 Edgemont Dr.	Lender Monitoring	Mitigation 2	08/01/2016	08/19/2016	Stickles, Fumiko
● <a href="#">351-3237642</a>	944 Johnson St.	FHA Manual	Mitigation 1	08/01/2016	08/19/2016	
● <a href="#">351-6025947</a>	386 Westport St.	Random	HQ Escalation	08/01/2016	08/20/2016	Crowder, Odis

▼ UNDER REVIEW BY FHA (103)

Case Number	Property Address	Selection Reason	Review Level	Request Date	Response Date	Last Action By
<a href="#">347-1948267</a>	9710 Brewery St.	Lender Monitoring	Mitigation 2	07/01/2016	07/11/2016	Hirsch, Sherly
<a href="#">369-3197648</a>	789 Creekside St.	FHA Manual	Mitigation 2	07/07/2016	07/19/2016	Magill, Lavenia
<a href="#">385-6497135</a>	86 Wall Ave.	Random	Mitigation 1	07/07/2016	07/19/2016	Pippin, Grace
<a href="#">346-6485720</a>	7221 Valley Lane	Random	Mitigation 2	07/07/2016	07/19/2016	Neu, Flo
<a href="#">372-3489517</a>	7990 Bedford Lane	Lender Monitoring	Mitigation 2	07/07/2016	07/19/2016	Kraushaar, Mahalia
<a href="#">351-9457861</a>	7729 Pearl Lane	FHA Manual	HOC Escalation	07/15/2016	08/01/2016	Gebhart, Maudie







# Responding to Findings

- Administrative Contact (registered in LEAP) notified by email when findings require a response
- All review details/history available in LRS
- Directly upload documentation and written responses
- May submit indemnification agreements electronically



# Data & Reporting

- Reports available in LRS using MicroStrategy:
  - Loan Quality (material defect rates/details)
  - Request Processing/Timelines
  - Random Sample Outcomes
- Data from all review types in aggregate or in separate categories
- Download raw data to build your own reports



# Data & Reporting (cont.)

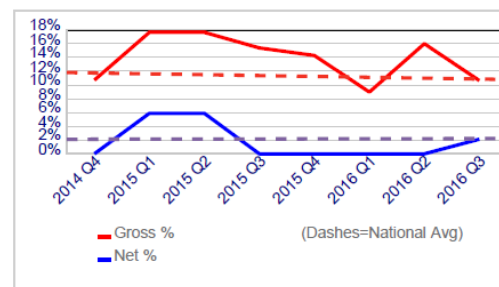
★ LRS
Active Reviews
Binder Request
Create Self-Report
Completed Reviews
Reports

Signed in as Lender Jones ▾

FHA MORTGAGE COMPANY (86420)

## Material Defects

Quarter	# of Loans	Gross #	Gross %	Quartile	Net #	Net%	Quartile
2014 Q4	56	6	10.7%	3	0	0.0%	4
2015 Q1	34	6	17.6%	3	2	5.9%	1
2015 Q2	34	6	17.6%	1	2	5.9%	3
2015 Q3	26	4	15.4%	4	0	0.0%	1
2015 Q4	14	2	14.3%	1	0	0.0%	1
2016 Q1	156	14	9.0%	3	0	0.0%	2
2016 Q2	100	16	16.0%	4	0	0.0%	2
2016 Q3	94	10	10.6%	2	2	2.1%	3
Total	514	64	12.5%	--	6	1.2%	--



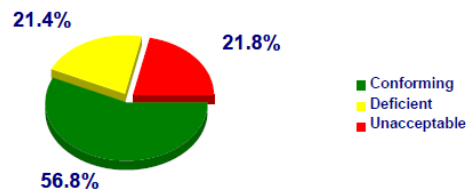
## Review Ratings #

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2014 Q4	38	4	6	0	8	0
2015 Q1	22	4	4	0	2	2
2015 Q2	20	4	4	0	4	2
2015 Q3	18	2	4	0	2	0
2015 Q4	12	0	2	0	0	0
2016 Q1	124	2	14	0	16	0
2016 Q2	72	4	16	0	8	0
2016 Q3	66	10	8	0	8	2
Total	372	30	58	0	48	6

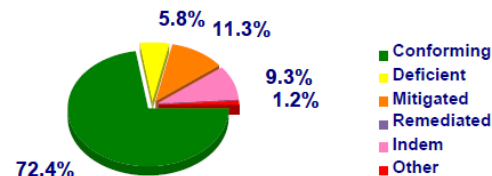
## Review Ratings %

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2014 Q4	67.9%	7.1%	10.7%	0.0%	14.3%	0.0%
2015 Q1	64.7%	11.8%	11.8%	0.0%	5.9%	5.9%
2015 Q2	58.8%	11.8%	11.8%	0.0%	11.8%	5.9%
2015 Q3	69.2%	7.7%	15.4%	0.0%	7.7%	0.0%
2015 Q4	85.7%	0.0%	14.3%	0.0%	0.0%	0.0%
2016 Q1	79.5%	1.3%	9.0%	0.0%	10.3%	0.0%
2016 Q2	72.0%	4.0%	16.0%	0.0%	8.0%	0.0%
2016 Q3	70.2%	10.6%	8.5%	0.0%	8.5%	2.1%
Total	72.4%	5.8%	11.3%	0.0%	9.3%	1.2%

## Gross Rating - 2 Year Average



## Net Rating - 2 Year Average





# Business Process Changes



# Test Cases

- Mortgagee Letter 2016-21
- New procedures for lenders approved on or after April 1, 2017
- Test cases will be reviewed post-closing
- Multiple opportunities to cure underwriting defects
- Acceptable rating results in Mortgage Insurance Certificate (MIC)
- Unacceptable Rating results in Notice of Return (NOR)





# Lender Monitoring Reviews

- Email notification from LRS with list of selected loans
- On-site visit to focus on internal controls, operations, and QC Plan
- Most loans reviewed before the on-site visit
- Lender responses via LRS for operational and loan-level findings





# Lender Self-Reporting

- Self-Report function replaces “Lender Reporting” in Neighborhood Watch
- Simplified data collection—from 36 to 6 critical data elements
- Report single or multiple loans with upload capability
- Automatically generates request for binder



# Lender Self-Reporting (cont.)

LRS

Active Reviews

Binder Request

Create Self-Report

Completed Reviews

Signed in as Lender Jones

FHA MORTGAGE COMPANY (86420)

1) Add Case(s) to Self-Report

2) Add Case Details: 2 Cases Selected

**DEFECT TYPE**

☐ Servicing

☒ Underwriting

**DEFECT AREAS**

☒ Borrower Income (BI)

☒ Property Appraisal (PA)

☐ Borrower Credit (BC)

☐ Borrower Eligibility (BE)

☐ Loan Amount (LA)

☒ Mortgage Eligibility (ME)

☐ Borrower Assets (BA)

☐ Lender Operations (LO)

☒ Property Eligibility (PE)

**FRAUD**

☒ Fraud has been detected for selected case(s)

Types of Fraud

Appraisal Fraud, Credit, Employment, Equity Skimming

Fraud Participants

Borrower, Appraiser

**FINDINGS AND CORRECTIVE ACTIONS**

Describe the Findings that led to this Self-Report:

This is a description. This is just placeholder text. Sample response to FHA from the lender about this finding/defect and an explanation. This is just placeholder text. Sample response to FHA from the len

Describe any Corrective Actions that have been taken:

☐ Loan Covered Under Settlement with HUD

Clear

Submit






# Defect Taxonomy



# Defect Taxonomy


FHA Office of Single Family Housing



## FHA's Single Family Housing Loan Quality Assessment Methodology

(Defect Taxonomy)

June 18, 2015





# Defect Taxonomy

## *What is it?*

- Method of identifying defects and their sources, causes, and severities
- Provides useful data and feedback through structured categorization of defects
- Balances risk management and business processes



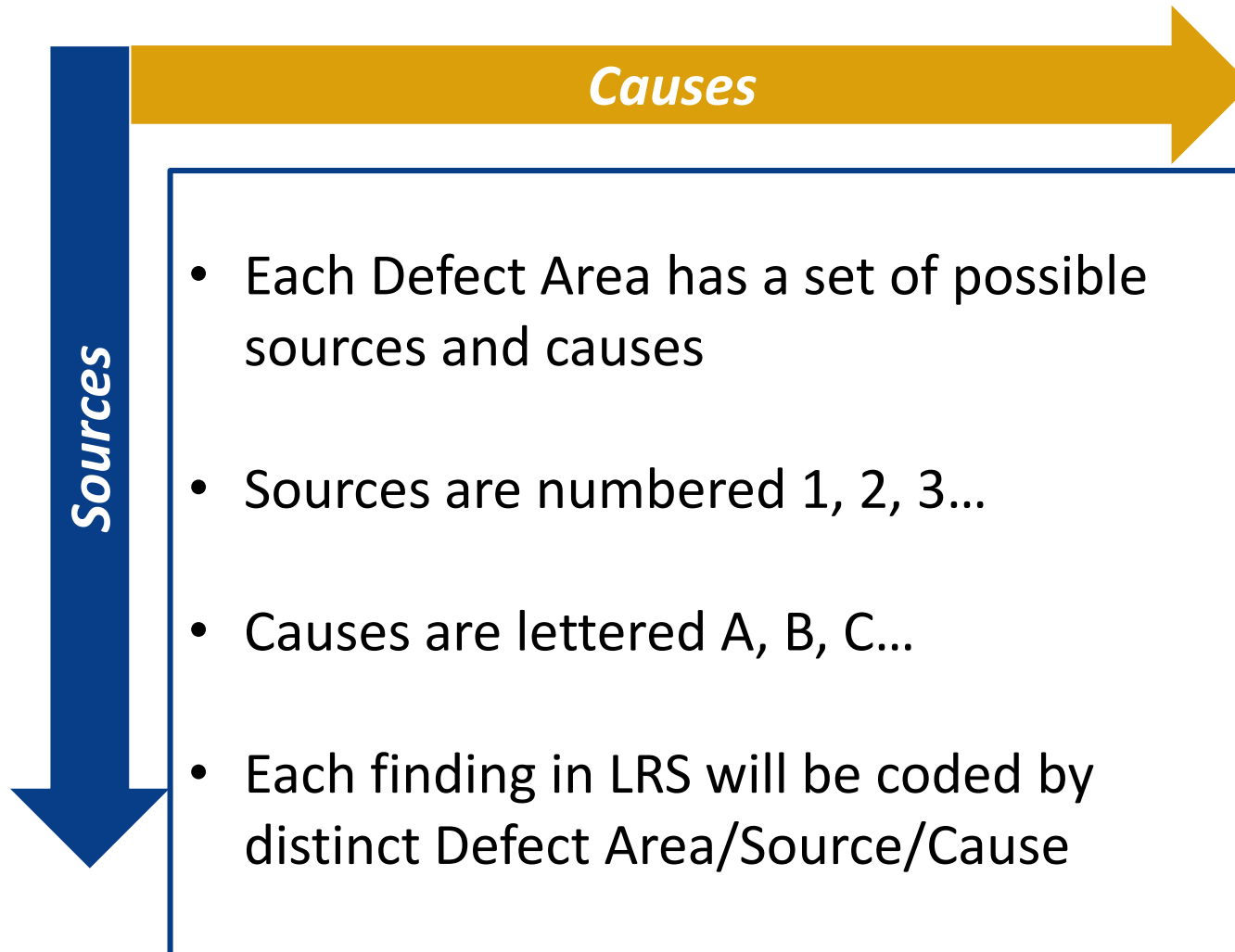
# Defect Taxonomy (cont.)

## *Defect Areas*

1. Borrower Income **(BI)**
2. Borrower Credit **(BC)**
3. Loan to Value/Maximum Loan Amount **(LM)**
4. Borrower Assets **(BA)**
5. Property Eligibility **(PE)**
6. Property Appraisal **(PA)**
7. Borrower Eligibility **(BE)**
8. Mortgage Eligibility **(ME)**
9. Lender Operations **(LO)**



## Defect Taxonomy (cont.)





# Defect Taxonomy (cont.) *Sample – Property Eligibility (PE)*

Sources		Causes			
1	MPR and General Acceptability Criteria	A	B	F	G
2	Property zoning does not meet policy	Determinations are not supported by documents provided	Determinations supported by documentation but FHA policy is improperly applied	Possible Mis-Representation or Fraud <i>(Lender did not know or could not have known)</i>	Possible Mis-Representation or Fraud
3	Property flood requirements not met				
4	Manufactured home ineligible				
5	New Construction ineligible				
6	Property fails to adhere to flipping guidelines				
7	Condo project not approved or withdrawn				
8	Condo – loan level issues				
9	Repairs not completed or repair escrow account not established				
10	Required compliance inspections not completed				
11	Property not acceptable				
12	Non-MPR repair issues/escrow account not established				
13	Other				



# Defect Taxonomy (cont.)

## *Severity Assessment*

- Four possible severity tiers
- Severity is driven by the impact on insurability
- Measured by nature of the deviation from FHA's requirements
- Finding notification will include the tier of each defect



**Tier 1**

**Tier 2**

**Tier 3**

**Tier 4**

## Defect Taxonomy (cont.)

### Tier 1

- Fraud/Misrepresentation
- Violations of statutory requirements
- Significant eligibility or insurability issues
- Inability to determine/support loan approval

### Tier 2

- Material errors that impact loan approval
- Failure to comply with FHA policy



## Defect Taxonomy (cont.)

### Tier 3

- Minor errors or issues impacting approval
- Failure to comply with guidelines by small degree

### Tier 4

- Errors that impact calculations or data integrity
- Loan would have been approvable despite errors



# Upcoming Activities



# Upcoming Activities

- Mortgagee Letter to confirm LRS go-live date
- Additional webinars before and after system implementation
- User documentation posted prior to go-live
- FHA INFO notices



# References

- Mortgagee Letters 2016-21 (Test Cases) and 2017-03 (LRS Implementation)  
[https://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/letters/mortgagee](https://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee)
- Defect Taxonomy  
[https://portal.hud.gov/hudportal/documents/huddoc?id=SFH\\_LQA\\_Methodology.pdf](https://portal.hud.gov/hudportal/documents/huddoc?id=SFH_LQA_Methodology.pdf)
- Lender Insight  
[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/lender/SFH\\_Lender\\_Insight](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/SFH_Lender_Insight)
- FHA INFO provides the lending industry updates on new Mortgagee Letters, Handbooks, and other notices, as well as a FHA Housing Industry Training. Lenders may subscribe to this e-mail distribution through the “subscribe to FHA INFO” link on the HUD Resources section of the main FHA lender web page at [www.hud.gov/lenders](http://www.hud.gov/lenders)





# The FHA Resource Center

- Origination through Endorsement FAQs on SF Handbook Information page:
  - Commonly asked questions/detailed answers.
  - Uploaded to the online Knowledge Base.
- [www.hudanswers.gov](http://www.hudanswers.gov): 1900+ Qs and As addressing 90 percent of our phone calls and announcements of policy changes and training opportunities.
- Email: [answers@hud.gov](mailto:answers@hud.gov)
- Phone: (800) CALL-FHA or (800) 225-5342
- TTY: 1-800-877-8339
- Monday through Friday 8:00am – 8:00pm Eastern





# Thank You!

